

**The Lone Star Still: Assessing the Viability of Texas as an Emerging Market
for American Whiskey**

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Abstract

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In a 2019 Texas Monthly interview, a local Texan whiskey distiller stated “you might conclude that there is nothing more Texan than a glass of whiskey.” In the last decade, the Texas whiskey industry has seen substantial growth due to a rise in national and global demand for American whiskey.

This thesis argues Texas to become a new major American market for whiskey production despite being a historically young market. While Texas does not boast the historical relevance within the American whiskey conversation that other states do, liquor marketing trends paired with the huge demand for American whiskey strategically position Texas whiskey to become a power player within the whiskey industry. As the Texas whiskey industry continues to develop, its success will be predicated on the industry’s ability to distinguish itself relative to other emerging markets and cultivate a Texan brand of whiskey.

Contingent on Texas whiskey brands’ ability to adapt to changing market preferences, and the State’s changing distribution laws regarding liquor sales, Texas has the potential to produce whiskey on a scale similar to Kentucky or Tennessee.

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Chapter 1. Introduction

1.1 Overview

Over the last decade, the American whiskey industry has experienced substantial change.

Following nearly 40 years of whiskey sales remaining stagnate, the late 2000's saw the whiskey industry resurge on a large scale. From the 2006 to 2013, the Kentucky Distillers' Association reported that the total value of whiskey stock within the state leapt from under \$800 million to over \$1.55 billion (Wiatrak, 2019). The increase in demand for American whiskey offered new producers an opportunity to enter into this historic market in hopes of capitalizing on the supply shortage.

While Texas is relatively new to the American whiskey industry, its short time within the conversation has yielded interesting results. Since the first distilleries opened their doors in Texas in 2009, Texan whiskeys have won a number of global taste-test awards. Jim Murry, an authority on whiskey and publisher of the annual critically acclaimed review of the world's best whiskey article Jim Murry's Whiskey Bible, has even stated "These are among the best whiskeys not just in Texas but among the world,"

The purpose of this paper is to first to explore the rich history of American whiskey in order to understand market trends and the current state of the Texas whiskey industry. Second, the paper will examine the potential advantages held by the Texas whiskey market in the following factors: environmental effects, marketing tactics and distribution laws. Third, the paper will discuss potential challenges regarding Texas' ability to enter the American whiskey market on a larger scale relative to other competing states.

1.2 Approach

The motivation behind this paper was to understand whether or not Texas whiskey would have the ability to control a considerable share of the American and global whiskey market. Given that Texas' whiskey market is relatively new to the game relative to states such as Tennessee and Kentucky which have dominated the American whiskey market since the 19th century, the question arises as to why the Texas whiskey industry could become a player within the American whiskey market at this moment.

This paper investigates the Texas whiskey market's potential through various methods. It includes interviews with distillers, whiskey experts, writers, whiskey company owners, legislators, and distillery owners in Texas as well as Kentucky. The paper utilizes a comprehensive literature review of whiskey industry history, effects of distribution legislation on production, consumer perception, and historical industry marketing trends.

Chapter 2. Understanding Whiskey in America

2.1 Whiskey in America – An Overview

In order to conjecture as to whether or not Texas has the capabilities to become a competitor within the American whiskey discussion, we must first understand how the American whiskey market operates. The focus of this chapter will be to contextualize Texas whiskey by discussing the history of whiskey in America. While this is a broad topic, I will focus my efforts on the historical significance of Kentucky's whiskey industry, the Tennessee whiskey industry, the history of whiskey within Texas the history of marketing techniques which contributed to the rise

of these industries in the 1900's, the Bourbon Boom of the late 2000's and finally the history of whiskey within Texas.

2.2 America's First Distillers

American Whiskey found its start during the colonial era of United States history. The first example of whiskey being distilled does not come from the backcountry of Kentucky, nor the small valley communities of Tennessee, but rather from a small distillery on Staten Island. Here in 1640, William Kieft, the director of the newly established New Netherlands colony, is said to have utilized corn and rye to distill his own alcohol. While this is the first known example of whiskey being produced on American soil, the first individuals to begin distilling whiskey in larger quantities were colonial farmers. When left with excess grain following a harvest, farmers were left with a choice: let the grain go bad, or use it to create their own alcohol. While beer was a simpler and less dangerous option, farmers often chose to distill hard liquor due to the fact that it would not spoil the same way beer would. Additionally, farmers capitalized on distilling as a secondary means of income due to the demand for liquor within the colonies and the limited costs of production and transportation. However, while farmers were amongst the first distillers of whiskey in America, the primary liquor being produced on a large scale in the colonies was rum.

While rum remained the liquor of choice for colonists throughout the majority of the colonial era, Maryland and Pennsylvania saw a large influx of Scottish and Irish immigrants during this time. These Scots-Irish colonists brought with them a higher demand for whiskey. These immigrants began to distill rye whiskey due to the fact that rye grain was easier to produce in the

middle colonies. The Scots-Irish also began incorporating corn, a native American grain, into their recipes for distillation. This incorporation would lead to a sweeter more distinctive kind of American whiskey.

2.3 The Birth of Kentucky Bourbon

In 1776, Kentucky county was created out of a large portion of western Virginia. This land was subject to laws which allowed settlers to claim up to 400 acres of land provided that they built a cabin and planted corn patches prior to 1778. While there were likely a large number of individuals distilling and selling whiskey throughout Kentucky in the 1780's, the first record of a commercial distillery comes in 1783 and belonged to a man named Evan Williams. Shortly thereafter, a number of other recognizable family names began opening their own distilleries. These included Elijah Craig in 1786, Robert Samuels of Makers Mark Bourbon in the early 1780's, Jacob Beam of Jim Beam Bourbon in 1795 and Daniel Weller of W. L. Weller Bourbon in 1794. While there were certainly more distilleries set up within this time period, these are just a few of the ones which have remained prominent within the Kentucky Bourbon conversation.

While it is not clear who created the first batch of true Kentucky Bourbon, that has not stopped individuals from speculating, or brands from claiming the title of "the first true Bourbon." The most prominent rumor holds that Baptist minister Elijah Craig is the inventor of the recipe which would later be known as Bourbon whiskey. However, this claim lacks any kind of substantiation. While discovering the inventor of Bourbon is an interesting mystery, it seems people are more interested in the topic due to the value it has within a marketing sphere of liquor. There is an obvious appeal in being able to say your recipe was the original Kentucky Bourbon.

More important than the inventor of Kentucky Bourbon, are the conditions found in Kentucky which make it so suitable for distilling bourbon. According to the American Whiskey Trail's outline of whiskey history in America, the reason Kentucky was a great area to distill bourbon was because "Kentucky was an area with plentiful trees (17 varieties of oak are native to the state), pristine, limestone-filtered water, and arable land."

First and foremost, the limestone filtered water is an integral component in the distillation of bourbon due to the fact that this mineral water has such limited amounts of iron in it. Whiskey which is distilled from water with high amount of iron leads to a finished product which is an almost black color with a harshly bitter taste. The limestone-filtered water found throughout Kentucky's streams and rivers is great for distilling because "limestone water dissolves iron and promotes fermentation. Many early farms and settlements [within Kentucky] were located near perennial springs, whose relatively cool temperature (~13-15 degrees C) facilitated condensation of steam during distillation" (Barton, 1).

The second factor which led to the creation of Kentucky Bourbon was the abundance of corn being grown in Kentucky at the time of bourbon's inception. This can be traced back to the "Corn Patch and Cabin Rights" law. In his essay, *The Uniqueness of Kentucky*, historian Ron Bryant states:

Virginia wanted to develop its western lands in Kentucky. Under the law, settlers had to prove that they seriously intended to improve their land claims in Kentucky. To do so the settler had to build a cabin and plant a patch of corn prior to January 1, 1778. With these requirements fulfilled, the settlers could lay claim to 400-acres of land. The Virginia lawmakers failed to specify how big the cabin had to be, or how big the corn patch. (Bryant)

While this law incentivized settlers to move into the Kentucky backwoods, the large amount of land granted for corn farms led to an over-abundance of left over grain. Settlers had no desire to allow their residual grain stores go to waste and as such chose to begin creating new mash recipes which included more corn. These new recipes led to the requirement that the mash for Bourbon whiskey must be comprised of at least fifty-one percent corn which is held as the current standard for Bourbon distillers. The pairing of these two factors is what Kentucky bourbon aficionados will point to when discussing why Kentucky was the perfect setting for the rise of American Whiskey.

The final ingredient which went into the creation of Kentucky bourbon was the unique charring on the staves which were used to create the barrels in which the bourbon was aged. Again, the first individuals who utilized this process, and their reasons for doing so, are unknown. What is known is that the introduction of charred barrels is the factor of distilling bourbon which gives the bourbon a distinct and smooth flavor.

By the 1790's the rum business, which had controlled the American spirits industry since colonization, had begun to lose steam. This decline of the rum industry was likely influenced by shortages in cane sugar caused by the erupting Haitian revolution. This fact was catalogued in the journal of a young Frenchman at the time who stated "The rum distilleries are on the decline since the suppression of the slave trade, in which this liquor was employed." (Brissot, 1791). The problems for the rum business would only get worse as in 1807 an embargo was placed on English sugar and slave trade continued to dwindle. The decreasing demand for rum set the stage for the first truly American liquor to rise.

During this same time period, Americans began moving westward in search of land to homestead. This also made it more difficult of Americans to distill rum due to the transportation costs of shipping sugar from the east coast into the American heartlands. Settlers instead turned to whiskey due to the abundance of grains available throughout the countryside.

Another key which would help galvanize the rise of bourbon was a new method in the distillation process. The implementation of what is known as the “sour mash” would lead to a more refined and less bitter form of whiskey. This method was popularized by Dr. James Crow at the Pepper family distillery in Kentucky. Crow, who had studied chemistry at the University of Edinburgh, found that the addition of mash used in previous batches of bourbon into new batches yielded an extremely palatable bourbon. For this reason, many argue that Crow was the man most influential in the perfection of the bourbon distillation process.

Just as the American whiskey industry was set to establish itself, it hit a roadblock. In 1791, the newly former American government implemented a tax on whiskey in an attempt to raise revenue in order to repay debt incurred during the revolutionary war. This whiskey tax led to a standstill for the emerging bourbon business in Kentucky. While some distilleries were able to keep their stills operating, many smaller operations were forced to close down for some time. Smaller companies began supplying grains to more profitable distillers in hopes that once the tax was removed they would be able to begin their business again. This tax eventually led to civil unrest amongst a number of farming communities. This unrest eventually erupted into the Whiskey Rebellion, in which federal troops were called in, for the first time in American history,

to quash Pennsylvanian farmers attempting to defy local tax collectors. Following the rebellion, a number of Pennsylvanians chose to migrate south to Kentucky.

In 1802 President Thomas Jefferson chose to repeal the whiskey tax. This led to the reestablishment of a number of prominent distilleries throughout the state of Kentucky. During this time, bourbon began to rise again.

2.4 The Creation of The Tennessee Whiskey

At the same time that Kentuckians were slowly building their whiskey empire on the back of bourbon, their neighbors to the south were also beginning to experiment with the whiskey industry. Similarly to Kentucky, Tennessee was a state built on farmers who would from time to time use their excess crops to create their own form of whiskey. In the year 1825, the Tennessean Alfred Eaton developed a process which would forever alter the state of Tennessee whiskey and create a new kind of American whiskey. The process, which has been dubbed “The Lincoln County Process,” utilized a new kind of filtration system. Prior to putting the distilled whiskey into casks for aging, the liquor would be filtered through at least 10 feet of sugar-maple charcoal by way of a slow drip mechanism. While Eaton was not the first whiskey man to utilize a filtration system in order to instill his whiskey with a sweeter taste, he was the first to take the process to the extreme of 10 feet of charcoal. This process takes roughly ten full days to complete, however, many Tennesseans will argue that the end result is well worth it. Unlike in the same vein as bourbon, Tennessee whiskey mash is required to contain at least fifty-one percent corn grain in order to satisfy the federal requirements to be called true Tennessee whiskey.

2.5 Prohibition: The Nation Goes Dry

By the turn of the nineteenth century, a number of temperance movements had begun cropping up across the United States. A number of these movements chose to band together into a coalition known as the Anti-Saloon league. After years of lobbying from the Anti-Saloon League, the Volstead Act was passed in 1920. This act enacted the first National Prohibition Law. Some effects of prohibition on the liquor business are somewhat counterintuitive. Demand for liquor saw a sharp increase due to the fact that liquor contained more alcohol content than beer or wine and was therefore easier to transport and smuggle. This made drinking liquor more popular and socially acceptable. On the other hand, prohibition closed nearly all of the legitimate whiskey distilleries throughout America. While distilleries were able to petition the American government for the option to distill whiskeys for medicinal purposes, very few whiskey-men thought this option would be financially profitable. Of all the distilleries across the nation, only ten applied for such permits, and of those ten, only six were granted the right to keep their distillery doors open. These six distilleries were licensed only to distribute their product to drug stores and doctor's offices.

2.6 Prohibition Repealed

Of the seventeen distilleries which were in operation in Kentucky, only seven were able to ride out the thirteen-year dry run. Distillers were considered with the state of the whiskey business following prohibition. Many believed that their market had all but disappeared as the nation's tastes had shifted from whiskey and beer to gin and moonshine. While these concerns were well founded, once the Volstead act was repealed, those distilleries which were able to remain open

throughout the prohibition era began to see a steady increase in demand for their product. This repeal also led to the reopening of a number of household name whiskey brands which were forced to go dormant during the prohibition movement. These distilleries which had just started lighting their stills again encountered the same issue that many whiskey upstarts struggle with today; their product takes time in order to become its best. Many brands began trying to age their product for only a year and then trying to sell it to the American public in order to be some of the first brand names back on the market. This hurried final product inevitably led to the failure of a number of distillers.

This lack of straight American whiskey during post-prohibition America caused tastes to change. Many whiskey drinkers began turning to blended whiskies. This meant that once straight American whiskies were back on the market, the demand for them was not quite there. This trend would continue throughout the onset of World War II. During the war, most whiskey distilleries were contracted by the American government to begin distilling industrial alcohol to aid in the war effort. This meant that whiskey distillers, while still very active, were not able to produce and sell their product to the American public. In summary, the early 1900's were not the best times for the American whiskey business. Between, prohibition closing a number of reputable distilleries, public tastes changing in a post-prohibition America and an inability to produce whiskey during the second world war, there was no reason for Americans to support the American whiskey industry.

2.7 Post-War America and the Downfall of the American Whiskey Industry

Following World War II, drinking became more of a pastime for the American public. The post-war economic prosperity meant that more Americans could afford to go out to bars or enjoy

drinks with their friends over dinner. However, this economic boom did not lead to an increase in whiskey sales. During World War II, the demand for high-proof alcohol skyrocketed. The product was used to not only to calm the nerves of our soldiers over-seas, but also in a number of products important to the war effort. “Most distilleries were converted to produce industrial strength alcohol that was used to make antifreeze, plastics, lacquer, medical supplies, smokeless gunpowder and even pesticide for use in the Southern Pacific.” (Angel’s Envy, 2016) The government conscripted distilleries across the country to begin producing the strength alcohol for these purposes. While the distillers were supporting the war effort, they were banned from producing any more whiskey. However, prominent distilleries were able to continue selling product which they had begun aging prior to the United States joining the war.

When the war ended, the American Whiskey Industry was left in a poor state. Inability to produce during the war meant that distillers were running a deficit, causing whiskey prices to increase. During this price increase, American’s adapted by drinking more vodka, rum and tequila. “Between 1960 and 1975 whiskey’s share of the liquor market dropped from 74% to 54%, while the “whites” — vodka and unaged rum and tequila — climbed from 19% to 35%,” (Fortune, Bourbon Boom). This change of American tastes would stager the whiskey industry for decades. In 1947, the whiskey industry was hit with another hurdle. President Truman shut down distilleries for 60 days in order to increase grain stores which were to be exported to Europe. The effects of World War II left the American Whiskey Industry hobbled for the remained of the twentieth century.

During this time, a number of tactics were employed to try and revitalize American Whiskey. In 1961, whiskey companies had amassed a surplus of product. In order to increase whiskey sales, Schenely Industries invest \$21 million in a marketing campaign. The campaign was focused on distinguishing whiskey from other spirits and was geared toward middle aged Americans. The marketing campaign employed slogans such as “Age Makes the Difference.” In 1964, the United States Congress “declares bourbon a ‘distinctive product of the United States,’ giving it special trade protection in overseas markets” (Mitenbuler). These marketing strategies were successful, however, they led to a cycle which limited the potential market for whiskey drinkers. Bourbon became viewed as a drink for the 50 to 70 year old market segment. Eric Gregory, the former President of the Kentucky Distiller’s Association stated “In the ’70s and ’80s bourbon was your father’s drink, or worse, your grandfather’s drink.” Due to the cyclical nature of these marketing tactics, the American Whiskey Industry experienced very little growth throughout the twentieth century.

2.8 The Bourbon Boom: Recent Trends Within the American Whiskey Industry

Following decades of the whiskey industry struggling through weak sales and underinvestment, the late 2000’s saw a resurgence of the whiskey business and more specifically within the bourbon sector. This era has been dubbed by a number of publications as “The Bourbon Boom.” At the beginning of the twenty-first century, bourbon sales grew by a measly 2.3% a year according to Euromonitor. However, from 2007 to 2012, this rate nearly tripled to 6.75% a year. Additionally, the Distilled Spirits Council found that from 2009 to 2014, reported that the sales of value brand whiskey (priced below \$15) had grown by 13%. During the same time period, it

was stated that super-premium brands (priced above \$80) had grown by 97.5%. This spike in bourbon demand has led to a concurrent rise in brands interested in riding the bourbon boom. “In 2000 there were just 24 craft distilleries across America; today there are more than 430, the majority of which make or are planning to make whiskey” (Risen, 2014).

Based on this information, it is clear that the Bourbon Boom is a reality. This raises the question as to what is behind this dramatic resurgence of the American spirit. There are a number of factors which played a role in the resurgence of the American whiskey market; however, the one most often pointed to as the main cause is export growth. While it isn’t entirely clear what caused the change in foreign taste which has led to the increase in exporting American whiskey, the quantity of whiskey being shipped abroad is tremendous. Where Kentucky bourbon is concerned, “almost half of all Kentucky bourbon is shipped overseas, with the largest markets being Australia, Germany, and Japan” (Speakeasy, 2018). In addition to these markets, American whiskey has seen large increases in consumer demand in the European market. “Bourbon exports to France quadrupled in 2012” (Risen 2014). Lastly, there has been substantial growth in popularity of American whiskey in developing nations. In the last decade, “exports to Mexico grew by “6,591%” (Risen, 2014). In addition to the large-scale increase in American whiskey exports to foreign markets, foreign companies have taken particular interest in the American Whiskey market. In 2014, the Japanese company Suntory Holdings completed a \$16 billion buyout of the American firm responsible for distilling Jim Beam and Maker’s Mark Bourbon. “The corporate marriage creates the world's third-largest high-end spirits maker” (BBC. 2014). Another prominent Kentucky bourbon brand, Wild Turkey, was bought in 2009 by the Italian

group Campari. Lastly, the British beverage conglomerate Diageo purchased the Bulleit whiskey brand in order to gain a footing in the American whiskey market.

While the increase in demand abroad played a significant role in the Bourbon Boom, another factor which has aided this resurgence is the decline in popularity of other spirits. From 1960 to 1975, whiskey's share of the liquor market dropped from "74%-54%" (Risen, 2014). During the same time period, the market share of "whites" – vodka, tequila and unaged rum – rose from 19%-35%. This paradigm shift lasted until the Bourbon Boom, which marked a shift in taste back to whiskey. In recent years, the market for white spirits have seen a steady decline in sales. Euromonitor International stated in their strategy briefing report *White Spirits: Difficult times for but Opportunities Lie Ahead*, "International white spirits categories (vodka, gin, tequila (mezcal) and white rum have all struggled for growth in recent years as it faces various headwinds, most notably consumer preferences for brown spirits (whiskies, brandy, etc)" (2014). It is clear that within the last fifteen years there has been a market shift away from the white spirits which controlled a large portion of the market share for the latter half of the twentieth century.

So, what led to such a drastic change? A number of people believe this transition in popular tastes is due to a desire for more authenticity, especially among younger consumers. Vodka, due to its clear and flavorless nature, is an excellent candidate for spirit producers to try and offer more diverse product line. In the earlier 2000's, companies tried to expand their product lines by introducing flavored white spirits. These products were considered value brand liquors aimed at a younger target market, 21 to 34 year olds. While flavored white liquors were fairly popular within this market for a time, some individuals believe this rise of led to the current desire among

younger consumers for what they view is a more authentic spirit as a means of distinguishing themselves.

When it comes to authenticity, American whiskey, and more notably, Kentucky bourbon, seem to reach the mark. Much of the mystique around bourbon comes through the rich history of the product. Being invented, distilled and named as a distinctly American product is what many point to as the characteristics which have made bourbon such a popular product in recent years.

In his article, *The Billion Dollar Bourbon Boom*, Clay Risen states, “Vodka and gin can be made anywhere, and are — but bourbon has deep roots in American history, from the settlers who first set up stills in Kentucky in the late 18th century through the pioneers who carried it farther west after the Civil War.” Risen believes that this uncompromisingly American standard set for Bourbon is what has created such a demand for the product. As discussed earlier, there is a certain allure to having the title of “the original Kentucky Bourbon.” This marketing technique has been employed by a number of brands in an effort to display how authentic their product is. Claiming that your product hasn’t changed its recipe since before the days of Prohibition grants it a level of prestige which is clearly appreciated in today’s market. This idea of authenticity is also perceived through the fact that whiskey, unlike many other spirits, takes time to create.

While the aging process differs from distiller to distiller, there are legal requirements for bourbon aging. “If you want to call your bourbon ‘straight bourbon,’ you have to age it for at least two years in the barrel. If you age it for less than four years, you have to put an age statement somewhere on the bottle telling folks just how long you aged it” (Trex, 2008). This amount of time adds to the authenticity associated with whiskey. Similar to wine, the amount of time a whiskey has aged is often associated with a finer product. However, when it comes to American

whiskey, this is not always the case. American whiskey are aged in are freshly charred, the aging process has a more immediate effect than that of a Scotch whose barrels have only been lightly toasted. American whiskey's more immediate aging processes mean that the more time a spirit spends aging does not create a more palatable whiskey. While a longer aging process for American whiskey may not yield a greater product, it does not detract from the idea that whiskey is a more authentic product due to the fact that these spirits still undergo more aging than white spirits.

Yet another factor which may have played a role in the rise of American whiskey is the taste and versatility of the product. American whiskies are largely sweeter and smoother than their foreign counterparts. Scotches and Irish whiskies, due to their longer aging processes in toasted barrels, are often smokier and harsher than American whiskies. Scotch and Irish whiskey are meant to be enjoyed on their own. That is to say that these products are not often utilized in cocktails or mixed drinks. American whiskies, on the other hand, can be enjoyed in a variety of ways. John Hansell, editor of *Whiskey Advocate* has stated "It's for sipping on the rocks or for mixing into cocktails. And it's great for pairing with food." An important aspect of this statement is the versatility of American whiskey within cocktails. Adam Johnson, the senior director of Kentucky Bourbon Trail Experiences, stated that "Cocktail culture definitely deserves a lot of the credit," (Klein, 2018). In January 2019, *Drinks International* published their list of the fifty best-selling cocktails in the world. This list was compiled after the organization asked bartenders from 127 of the best bars around the world to list their best-selling cocktail from the previous year. Three of the top five best-selling cocktails are whiskey based. These cocktails were the Manhattan, the Whiskey Sour and the Old Fashioned, which has been listed as the number one most popular

cocktail for the last five years. Both the Manhattan and the Old Fashioned call specifically for bourbon. While the whiskey sour does not necessarily require an American whiskey to be prepared, the cocktail fairs better when it has a sweeter whiskey and thus is often prepared using an American variant.

In addition to American whiskey's versatility and flavor profile, an edge it may have against foreign competitors is the attractiveness of the price-range for super-premium American whiskies relative to Scotch and Irish whiskey brands. This is, again, due to the fact that American whiskey takes far less time to age compared to foreign competitors. In a 2014 interview with *Fortune Magazine*, Kris Comstock, the brand manager for Buffalo Trace Distilling stated, "Getting into single malts in a serious way costs a lot of coin. A bottle can be in the hundreds, even thousands, of dollars. But you can get into bourbon and have a nice collection for a low price." There isn't one clear factor as to what has fueled the Bourbon Boom. However, the combination of American whiskey's popularity abroad, changes in market trends based upon new developing tastes and the appeal of American whiskey's price to average consumers has created the perfect environment for the expansion of the American whiskey market as new brands establish themselves throughout the United States.

2.9 History of Texas Whiskey

Texas's history within the American whiskey conversation is certainly less storied than that of Kentucky or Tennessee, this relationship between this state and whiskey is one which has evolved over the last one hundred years. While the thought of Texas's involvement with whiskey may call to mind images of dusty old cowboys throwing back shots in a saloon, the state's first

experimentation with the spirit came in the years leading up to the Volstead Act. Prior to World War I, a number of Texas counties had already gone dry. Just like Kentucky and Tennessee, prohibition led to increasing levels of moonshining within the Lone Star state. While these Texans weren't necessarily producing whiskey due to the fact that they weren't aging their liquor, the "white lighting" moonshine they were producing was primarily distilled from corn grain.

Skipping ahead to the twenty-first century, we have seen a resurgence of the Texas whiskey market. In 2009, the Garrison Brother's distillery in Hye, Texas began distilling the first whiskey in Texas since the time of prohibition. In the same year, the Balcones Distillery in Waco, Texas was also granted a distilling license and began producing their own form of Texas whiskey. These first two Texan distilleries opening within months of each other can cause confusion regarding which company was the first legal whiskey distiller in Texas. While Garrison Brothers was granted their distillers license first, Balcones was the first to actually sell their product. Since opening their doors in 2009, a number of Texan whiskey trailblazers have followed suit. Today there are seventeen distilleries in Texas producing their own unique takes on Texas whiskey. These distilleries came together to form the Texas Whiskey Association. A group of whiskey makers "with the common goal to promote Texas Whiskey, educate consumers and support distilleries that produce whiskey all within the territorial boundaries of the State of Texas. Together we intend to create and grow worldwide demand, appreciation and respect for whiskies made in Texas" (Tx Whiskey Assoc.) The Texas Whiskey Association endeavors to educate consumers by setting standards for what is and is not a Texas whiskey, lobby for proper transparency within labeling and marketing practices and encouraging cooperation between local

whiskey makers to ensure the survival of the Texas whiskey brand. In order to be certified by the TXWA, a company must be able to prove that source ingredients from Texas, distill and bottle their product within state lines with no other additives than Texas-sourced water.

Beyond this group of whiskey makers, there are another dozen whiskey brands who are trying to utilize the Texan mythos as a means for marketing their whiskey. These brands source their whiskey and whiskey ingredients from other states, but market their company as Texan. It's clear that a number of companies have acknowledged the potential for Texas as a viable market for whiskey and are attempting to establish themselves now. While it is still unclear as to what will be defined as "Texas Whiskey" in the future, what is clear is that the Texas whiskey boom is in full swing.

Chapter 3. Texas Whiskey Entering the Main Stage

3.1 Texas Whiskey an Unlikely Underdog – An Overview

The primary focus of this section will be to discuss the factors which play into Texas being an underdog for entering into the American whiskey market on a larger scale. These factors include environmental effects which alter the way whiskey is distilled in Texas, the use of sourcing whiskey from large distilleries in order to enter into the market and Texas' laws regarding the distribution of alcohol which differentiate the state from other competitors.

3.2 Environmental Effects of Distilling in Texas

As we have seen through the complex history of whiskey distilling in America, there are a number of factors which play a role in the creation of whiskey. Geography plays a key role in the successful creation of whiskey. From climate to sourcing ingredients for mash creation to water used in dilution, the location of a distillery can create a number of challenges as well as opportunities for whiskey producers.

3.2.1 Texas Heat

Among the geographic factors which make Texas a unique location for whiskey production, the most notable is the Texas climate. As previously discussed, the process through which “white lightning” spirit is turned into whiskey is referred to as aging. During this years-long process, a distilled spirit is placed in a charred barrel in order to allow the liquid to be absorbed into the wood through the charred interior. This aging process grants a finished whiskey with its brown coloration and distinct taste. This is accomplished through “a chemical process called adsorption, the molecules that make young whisky so harsh are drawn to the barrel’s wall, creating a thin layer of everything you don’t want in a drink.” (Lewis, 2015). The longer the spirit ages within the barrel, the more the charcoal lining refines the spirit, giving it a darker color and more mellow, smokey flavor.

Due to the way whiskey barrels take time to allow an unfinished spirit to soak into the wood, the aging process can take years to produce a final product. However, unlike Scotch, American

whiskey is aged in new freshly charred barrels. These newer barrels grant American whiskey its distinct taste relative to scotch because the aging process is more efficient. The other major factor which distinguishes American whiskey aging from scotch aging are the climates where the products are aged. American whiskeys are typically aged in dry climates with regular seasonal changes. These dry temperatures help whiskey during the aging process to evaporate more quickly and subsequently increase the rate of absorption. Scotch on the other hand is aged in humid temperatures which prolong the aging process. Due to the accelerated rate by which American whiskey ages, the aging process typically takes two to five years. While aging for longer than this period of time is an option, many producers warn against this due to the effects it may have on the taste of the whiskey.

The effects of climate on whiskey aging is part of the reason that Kentucky and Tennessee have been so successful in the whiskey industry. During these region's warm summers, the wooden barrels expand with the heat, drawing the spirit into the wood. Understandably, the winters have the opposite effect, contracting the wood and expelling the spirit back into the barrel. The fact that seasons within the Southern United States are predictable from year to year creates the opportunity for whiskey makers in this area to create a more consistently aged product. This fact paired with the dry climate are two of the most important factors which have led to the rise of the whiskey industry in these regions.

Understanding the basics of how the climate a whiskey is aged in affects the final product can help us to understand the challenges presented to whiskey distilleries in Texas. Relative to Kentucky or Tennessee, Texas has a climate marked by high summer heatwaves and erratic

temperature fluctuations. The pairing of these factors means aging whiskey in Texas has to be done differently than other places in the United States. Summer temperatures in Kentucky average out to 86 degrees (Kentucky Tourism, 2019). While in Texas the average temperature is between 93 and 100 degrees (Weather.US, 2019). These higher temperatures lead the barrels from Texas distilleries to expand more than those housed in Kentucky. This was the first major challenge which Dan Garrison of Garrison Brothers Distillery encountered when producing his first batch of Texas Bourbon. The Garrison Brothers website states “Our first batch of bourbon didn’t stand a chance. The scorching heat nuked our barrels. They leaked. Cracked. And broke altogether. Hundreds of gallons were lost.” (Garrison Brothers). This problem led the Garrison Brothers to seek out new, thicker barrels which could better adapt to the changes in Texas weather. In addition to the development of thicker barrels to ensure cracking and leaking does not harm whiskey during the aging process, a number of Texas distillers are forced to utilize climate controlled warehouses in order to ensure that their product is not ruined during the finishing stage. This is relatively common practice among most major distilleries in the United States, however, most do not advertise this as it diminishes the

While the summer heat in Texas can create challenges for distillers, the other factor which plays a role in the aging process is the frequent temperature swings which Texas experiences. While summers are long and hot, fall and winter in Texas can be less predictable. During the autumn months, Texas can reach highs within the 90-degree range and lows within the 40’s. While during the winters, the average low is 32 degrees and the average high is 68 degrees. These constant changes in temperature cause more frequent expansion and contraction within the whiskey barrels during the aging process. This makes it more difficult for first-time distillers to

predict when their product has aged the proper amount. For long-time distillers, it can even be difficult to produce a consistent product from batch to batch because of the erratic temperatures. However, many Texan distillers see these temperature fluctuations as an opportunity. Thomas Mote, the distillery manager for Balcones Distilling in Waco, Texas, stated in an interview, “The fact that our barrels expand and contract more frequently than other areas means that our whiskey is aging and purifying more rapidly. The faster our aging process, the faster we can deliver a finished product relative to our competition.” (Mote, 2019). Mote believes that Texan distillers have an edge due to the fact that their whiskeys only require two to three years to reach a finished state similar to other American whiskeys which have aged for four to five years. This faster turn-around time could lead to Texas distillers growing their production at rates which are faster than other states.

3.2.2 What’s in the Water

In addition to the climate’s effects on the Texas whiskey industry, Texas’ environment grants the industry another advantage in the form of limestone-filtered water. As previously discussed, one of the main factors which leads people to believe that the best whiskey comes from Kentucky or Tennessee is the fact that this product is diluted with limestone-filtered water which has a low iron content. This is one of the key similarities between Texas and Kentucky, both have an abundance of limestone water to use for this whiskey industries. Many Texan whiskey companies choose to dilute their product with Texas limestone water due to the ease with which they can utilize this natural resource. In fact, whiskeys which hold the Texas Whiskey Association certification of being a Texas whiskey are required to use Texas sourced water as the only additive to their product.

Many see the similarities in Texas and Kentucky's water supplies as a major advantage for Texan distillers. Mike Cameron with Devil's River Whiskey out of south Texas stated in a Fox San Antonio interview that "Kentucky and Tennessee are no magical places. You just need good limestone-filtered water." (Cameron, 2018). Even for Texas companies who do not distill whiskey themselves, the Texas water is an important factor. By using Texas water as a key ingredient within their product, these companies gain the advantages of limestone-filtered water while still being a part of an emerging whiskey market.

3.3 Distillers and Sourcers

An important factor in understanding the current state of the Texas whiskey market, is understanding the two types of whiskey companies found within Texas and across the entire country. The first type of company are distillers. These companies are what most people envision when thinking of the whiskey industry. These producers handle every step within the whiskey making process from purchasing mash-grain to bottling their finished product. Due to the fact that the whiskey making process has already been covered within this paper, this section will not focus on revisiting the subject of distillers.

The second type of whiskey company are called Sourcers. Sourcers operate differently than distillers in that they do not handle the distillation of grain into a finished spirit following the aging process, but instead purchase barrel aged whiskey from distillers and then dilute and bottle the product themselves. To many, sourcing whiskey is seen as "The Shady Side of the Business" (Stern, 2018), due to the fact that companies are not always forthright with the fact

that they did not distill the product themselves. While labeling laws do require these companies to disclose the source of these whiskeys, it is often only a small script on the back of the bottle. This potentially deceptive form of marketing was explored in a 2018 NBC news article entitled *Behind the Misleading Claims Fueling the Bourbon Boom*. The article states “[t]erms like “small batch,” “craft,” and “hand-crafted” have no set legal meaning — they’re just marketing terms. Likewise, brands are free to proclaim “made by,” “produced by” or “bottled by” on their label, even if they didn’t distill the actual spirit that’s in the bottle.” (Sterns, 2018).

There are a large number of whiskey companies throughout the U.S. who practice whiskey sourcing as a means of avoiding the high upfront costs of owning and managing a distillery while still enjoying the increased whiskey demand of the Bourbon Boom. One of the most successful examples of a whiskey sourcing company is Bulleit “Frontier” Whiskey. The Bulleit brand was created in 1987, however, it was bought out by the Seagram Company Limited in 1997. In 2014, Seagram was a part of the Diageo Liquor conglomerate which decided to re-launch the Bulleit brand. However, Diageo was not interested in building a new distillery to make Bulleit bourbon due to the high up-front costs and the fact that it would take at least four years before they would generate revenue. Instead, Diageo elected to source the whiskey for Bulleit from a large distillery in Indiana called Midwest Grain Products (MGP) (which Diageo acquired in their purchase of Seagrams). MGP is one of several wholesale distilleries across the globe which focus on sales to other companies rather than to average consumers. These companies are the “source” from which hundreds of whiskey brands buy their product. Diageo purchased gallons of whiskey from MGP and then diluted and bottled the product under the Bulleit bourbon name in Lawrenceburg, Kentucky. Due to the fact that the final stages of the

production were undertaken within Kentucky state lines, Bulleit could be marketed to the public as a bourbon made in Kentucky.

The practice of sourcing whiskey may be looked down upon as a form of misleading marketing, however, it has opened the opportunity for new whiskey companies to enter into the industry by circumventing the high costs of owning a distillery. In a 2018 interview with *Forbes*, Chattanooga whiskey distillery owner Kellie Shevlin discussed the costs of opening and operating a distillery. “For \$200,000 you can get up and running with a still, a building, and a license. If you want to make whiskey or any aging products you need millions of dollars to make it on a scale that is sustainable because you need to carry an inventory for years which takes buildings, cash flow aging warehouses and marketing dollars for product you can’t sell for 3-5 years.” (Minnick, 2018). With such high starting costs, it is understandable that companies may choose to source their product rather than making such a large investment without any certainty of return. Many sourcers even use the initial income from starting their company as a means to finance their own distillery. This was the case when it came to the Bulleit brand. Following 5 years of operation while sourcing whiskey from MGP, Bulleit whiskey opened its own distillery in Shelby County, Kentucky.

It is important to understand the difference between sourcing and distilling in order to better contextualize the current state of the Texas whiskey market. The growth of this market has been heavily influenced by companies who source their whiskey from elsewhere in the United States before finishing the product within Texas state lines. While some may view this as a shady business, the fact of the matter is that without the practice of sourcing whiskey from larger

distilleries, the Texas whiskey market, and the American whiskey market as a whole would be unable to meet the high demand for this product in the wake of the bourbon boom.

3.4 Interpreting the Label

With a large number of whiskey companies sourcing their product from large scale distilleries around the United States while marketing them as local products, it is important for consumers to be well educated on what kind of marketing techniques these companies are utilizing in order to grant these sourced whiskey's the authenticity which many consumers are seeking. For this reason, this section will discuss the labeling practices of many sourced whiskey companies in order to better understand what these companies are required to display on their bottles, and what claims are purely for marketing purposes.

As previously discussed, terms like "small batch" and "handcrafted" have no legal definition. However, these terms can be found on the labels of liquor bottles across the country. These are terms utilized within liquor marketing in order to grant the product a level of refinement which would lead to it being priced higher than its competitors (Stern, 2018). While this tactic is successful for whiskey marketing, it has also seen success as a marketing technique for other forms of liquor. At the same time, terms like "craft" only apply to distilleries and not their products. A craft distillery is one which distills an amount beneath a certain limit annually. However, any whiskey company could label their bottles with the word craft despite the fact that it did not come from a craft distillery.

When discussing the terms which can be legally be displayed on whiskey labels, there are a limited number and the prevalence of these terms within labelling varies depending on the whiskey brand. As we have previously discussed, there are set criteria which must be met in order for a whiskey to be classified as a bourbon or Tennessee whiskey. Therefore, in order to advertise a product as such on the label requires that these guidelines be met. Furthermore, it is required that companies disclose where their product was distilled. However, this law regarding the disclosure of distillation source only requires that the source be marked somewhere on the bottle (Stern, 2018). For this reason, whiskey sourcers will often only have a small statement of distillation source on the back of their bottles. This means sourcers can continue to label their product as “Texan” on the front of the bottle so long as some part of the product finishing occurred within the state while disclosing the source of the distilled spirit on the back of the bottle.

The Texas Whiskey Association has fought to make whiskey labeling more transparent in order to dissuade companies from marketing their products as Texas whiskeys when they are sourced from other states. To aid this endeavor, the Texas Whiskey Association created their whiskey certification which can be found on the label of brands which have proven that their product was manufactured entirely within Texas state lines using Texan ingredients.

3.5 Texas Spirit Distribution Laws

Despite being repealed nearly a century ago, the effects of Prohibition can still be seen in the current Texas spirits market. At the end of winter 2018, eleven of the 254 counties were still completely “dry”. Other counties only prohibited beer and wine, and only 74 counties were

completely “wet” (Texas Alcohol Beverage Commission, 2014). **Appendix A** shows a map of the wet and dry counties in Texas, and the following section analyzes the current Texas whiskey industry as a result of the change in alcohol legislation.

Significant regulatory reconstruction has occurred over the past few years, ushering in a new legal landscape for beer, wine, and spirits on both a national and local level. Prior to the recent changes, the Texas spirits market had been hindered by legislation for many years. A brief overview of the evolution of the legal environment is detailed below. To replace Prohibition in 1933, the Texas legislature created the Texas Alcoholic Beverage Commission (TABC) in order to regulate the alcohol industry. Lobbied by distributors who saw the opportunity for tremendous profit, TABC created a three-tier distribution system which effectually prohibited “vertical integration of the manufacture, distribution, and retail sale of alcohol” (Scotch, 2004). Initially, explosive growth in the wholesaler sector created a dynamic market with competitive pricing; as the industry developed, however, the market consolidated (Barber, M.S. & Dodd, 2006). As of the 2000’s, approximately 90% of the wine and spirits available in Texas were distributed by only three companies thus the system’s nickname as the “legal monopoly” (Roper, 2005; Zahn, 2010). Due to the inability for vertical integration, consumers are harmed by the “double mark-up” problem. This double mark-up occurs because each tier of the Texas distribution system expects to make a profit, and therefore, must increase the price of alcohol they are distributing along each tier of the system. This double-mark up problem is exacerbated by the fact that alcohol sales are taxed through each tier. Figure 3.1 shows the price effect for the consumer due to the three-tier system which on average results in almost a 200% markup by the time the bottle reaches the consumer (Wine Folly, 2015).



Figure 3.1

The use of the three-tier distribution system has been described as “Acting like a safety net, ... provid[ing] for “checks and balances” in the way that alcohol is distributed and sold throughout the system, from one licensed tier to another” (Park Street, 2007). Figure 3.2 demonstrates the tax revenue generated by the three-tier distribution system as well as the tax upon the different kinds of alcohol distributed through this system.

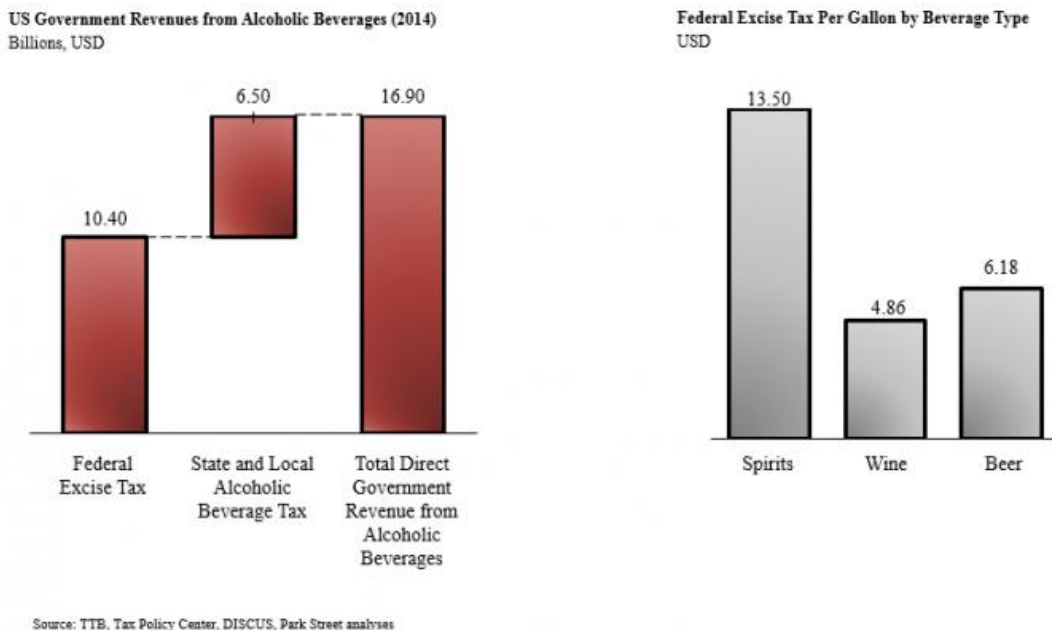


Figure 3.2

It is notable that the tax placed upon spirits is much higher than that of wine and beer. The different categorization of spirits relative to wine and beer continues within current legislative patterns within Texas and the United States as a whole.

While over the past two decades has led to major reform regarding alcohol distribution laws, the majority of this legislation has pertained to beer and wine sales, while hard spirits distribution has remained relatively the same in practice since its inception. The Texas wine industry has seen success in 2005's, HB 877 which allowed for wineries inside and outside the Texas borders to ship directly to residents despite wet versus dry county local option distinctions. This law reflected a national movement towards more liberal interstate shipping for alcohol which was formalized in a 2005 U.S. Supreme Court ruling (544, *Granholm v. Heald*, 2005). However, this case did not extend to the shipment of liquors directly from producers to consumers. The

differences in legislation between spirits and other forms of alcohol are likely due to the higher concentration of alcohol within distilled spirits relative to beers and wines.

In the 83rd Legislative Session for the state of Texas, S.B 905 was passed. This bill allowed Texas distilleries to sell product directly to consumers at the distillery site. However, these sales were “limited to 3000 gallons annually” (TABC, 2013). These sales are also limited to “wet” areas. A wet area is defined as a county in which if the community has legalized the sale of mixed beverages, or the sale of mixed beverages in restaurants. S.B. 905 marked some of the most liberal spirit distribution legislation in the state following Prohibition.

While Texan distribution laws regarding liquor are on par with other state liquor distribution laws, these barriers to distribution make it more challenging for all whiskey companies to expand their market share. Smaller whiskey companies cannot pay distribution companies the same amount as large distillers in order for their product to gain exposure to new customers. This fact paired with the double mark-up issue may hinder the Texas whiskey market’s ability to break out of the craft distilling space and in to national distribution.

Chapter 4. Whiskey Marketing and the Texan Edge

4.1 Whiskey Marketing – An Overview

The focus of this section, will be to evaluate the current state of the Texas Whiskey Market, understand the unique environmental effects Texas brings to whiskey, establish the different types of whiskey brands currently operating out of Texas and to explore the effects of current distribution laws upon Texas whiskey companies.

4.2 Product Differentiation in the Liquor Market

Beginning in the late 1990s, liquor brands began experimenting with how they sold their products. By this time there were hundreds of different liquor companies trying to sell their product to consumers. This forced liquor producers to find a way to differentiate their products from their competitors in order to give them a competitive edge in the market. This led to white liquor producers beginning to sell flavor infused versions of their products. As discussed in chapter two, this is partially the reason for the Bourbon Boom of the mid-2000s. While this form of product differentiation was somewhat successful for white liquors, the same idea could not be applied to brown liquors. This is due to the aging process which brown liquors undergo which imbues these products with their distinct taste. Due to the fact that products like whiskey have already undergone a flavoring process, there is a limited number of flavors which can be infused into brown liquors. However, this has not stopped whiskey producers from creating their own flavor infused products (often honey, vanilla or cinnamon infused). In 2018, the flavored whiskey market increased by 8.5% (Shanken, 2018). Flavor infused liquors have succeeded in differentiating producer's product lines, however, this does not help to give producers a competitive edge when it comes to sales in general forms of whiskey.

The reason the whiskey producers have such difficulty separating their products from their competition's is because these products are nearly indistinguishable. In a 2018 study conducted by Adele Quigley-McBride, findings indicated that during blind whiskey taste tests, subjects were most likely to rank the last brand they tasted as the best. For this study, 136 different whiskey tastings were examined, each consisting of seven different whiskey brands. The study found that, "people gave their highest rating to whiskies in the last position, and voted the last whisky as their favorite more frequently. This recency effect persisted when we controlled for the counter explanation that whiskies with higher alcohol content tended to occupy later serial positions. The recency effect also persisted when we controlled for the age of the whiskies" (Franco, 2018). The study even stated that subjects often remarked that they had the ability to distinguish their personal favorite brand of whiskey out of a batch. These subjects were often surprised when they were told that they had incorrectly selected a brand which was not the one they typically drank at home.

The results of the Quigley-McBride study could lead one to wonder, "If different whiskey brands can be difficult to discern from one another, what leads consumers to purchase one bottle over another?" To answer this question, we must return to the product differentiation problem. If a product cannot be distinguished by its characteristics, what do whiskey companies do to gain an edge over the competition? When company's products are indiscernible, they must turn to their marketing strategy in order to beat out the competition.

4.3 Whiskey as a Badge Brand

With the whiskey industry facing a unique issue of the inability to differentiate products, companies were forced to get creative with how they marketed their products. They sought to provide customers a reason to buy their own products rather than their competitors, while also ensuring that these customers would remain loyal to their brands. The perfect solution to this problem was to market spirits as “badge brands.”

A badge brand is a product which a consumer uses to communicate their self-perceived identity. Bruce Tait discussed the usage of badge brands in marketing in his article “How to Manage a Badge Brand.” Tait states that many companies “compete in categories where consumers believe that the brand they choose makes a statement about the kind of person they are. These are often called ‘badge’ categories— where brands send a message about the person using them. If we ask consumers to imagine a BMW driver and a Ford Truck driver, they can easily tell us the differences between the two types.” Tait further explains that within these badge categories, companies will assign a product its own distinct badge. These badges are the defining characteristic from which the products marketing springs. For example, Chevrolet truck’s iconic marketing campaign from the 1990’s, *Like a Rock*. This campaign, like countless others, associates Chevrolet trucks with strong hardworking individuals. The words which define Chevy trucks badge might be strength, grit or resilience. By creating an aura of strength around their product, Chevy is able to target consumers who self-identify with these attributes. The message contained within this marketing campaign is that tough people drive Chevy trucks.

These badges help to create a strong connection between consumers and their products. Through the use of badge brands, consumers are no longer purchasing a product due to its advantages over the competition, but rather due to the fact that their choice in this product communicates their identity to other people and to themselves. Tait describes this effect as such, “The most powerful badge brands don’t just tell others what kind of person the buyer is; they help enhance the purchaser’s self-image.” This powerful connection created by badge brands leads to customer loyalty. Once a consumer finds a brand which effectively communicates and reinforces their self-identity, they tend to stick with that brand. In fact, “research that shows young men who state a beverage brand preference at age 21 tend to stick with that brand in good numbers – fully half are still loyal at age 29” (Killian Branding). This brand loyalty serves as another distinct advantage for why companies seek to develop their products with a badge in mind.

Unsurprisingly, badge branding is an important part of the liquor industry. While it is difficult for liquor producers to distinguish their products based on intrinsic properties, the creation of a badge for particular products is more simple. In fact, the process by which the spirits industry develops a badge for their products is easy to track. The first step is established as deciding what feelings consumers seek to demonstrate when they decide what products to drink. This process was simplified in the 1990’s by the creation of NeedScope market research developed by Kantar, a data-insight and consulting company. The NeedScope model works by structuring consumer needs alongside brand image.

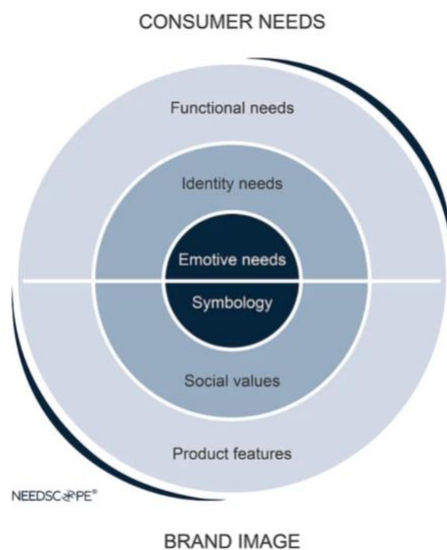


Figure 4.1

Figure 4.1 demonstrates how consumers needs coincide with different brand attributes through what Kantar describes as Consumer Needs Onion. This begins with the outer layer of functional needs to product features. Within the alcohol industry, this can be exhibited by whether an individual chooses to consume, beer wine or a spirit. Each group has different features which appeal to different consumers in particular scenarios. Secondly, the figure exhibits how the deeper level of the Consumer Needs Onion is comprised of social values and identity needs. This is the first aspect of what makes badge brands so successful. Layer 2 of the onion allows a brand to communicate a consumer's identity based on the social values attributed to that brand. The final layer of the onion tackles the aspect of badge branding which creates brand loyalty, the enhancement of a consumer's self-image. A consumer's emotive needs are easily conveyed through the use of symbols associated with brands. This conflation of a brand image with an emotion response strengthens the bond between a consumer and their badge brand.

While Figure 4.1 explores the connection between consumer needs and a brand image, Kantar develops the NeedScope further into their Psychological Framework demonstrated in Figure 4.2.

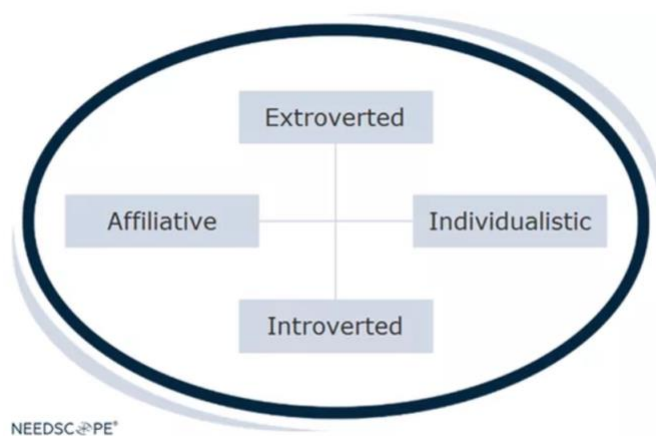


Figure 4.2

The NeedScope's Psychological Framework explores how the identity and emotive needs from Figure 4.1 can be organized into different emotive states. The four states chosen for this framework were Extroverted, Introverted, Affiliative and Individualistic. These states and the areas in-between them help to capture the different identity and emotive needs which can be demonstrated through product choice. When it comes to the alcohol market, the NeedScope has been refined further into six subcategories within the psychological framework.

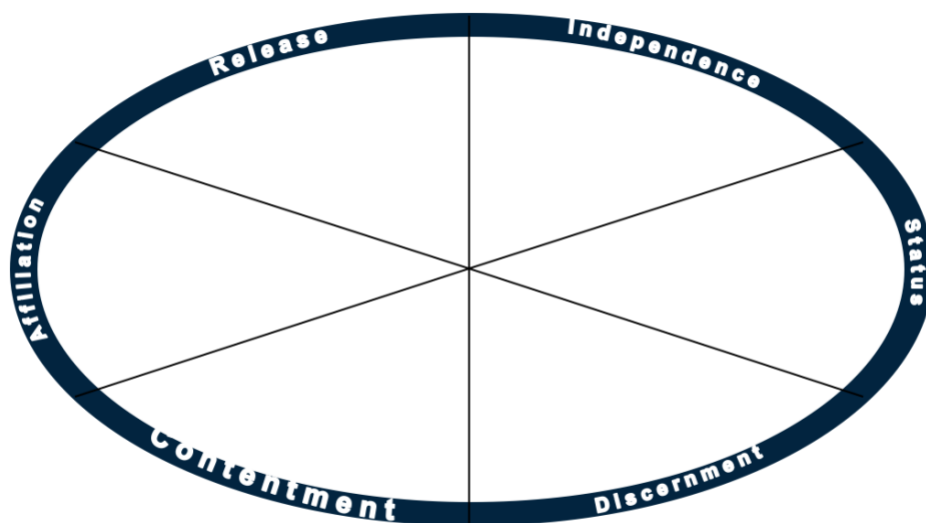


Figure 4.3

Within the alcohol market NeedScope, the six emotional states conveyed are Affiliation, Release, Independence, Status, Discernment and Contentment. These different states were selected as the characteristics which individuals seek to exhibit while drinking by the Diageo liquor conglomerate's marketing team following market research. Utilizing NeedScopes similar to this one, liquor companies assign badges to different kinds of alcohol within each of these six groups. For example, the affiliation group is often associated with alcohol's like non-craft beers. When a consumer is purchasing beer, it is often for a group gathering. Marketing strategies associated with the beer industry are often focused on this group mentality due to the use of the affiliation grouping within the NeedScope. The release category is commonly associated with alcohol's like tequila or rum. These are liquors which consumers purchase in order to convey a desire to have a good time. Contentment aligns with heavier liquors such as Irish cream or schnapps. Discernment is a category defined by a consumer's desire to convey their knowledge of certain liquors. This category is exemplified by craft-beer, liqueurs and Scotch whiskeys. The Status category is defined by consumers who wish to convey wealth or esteem. A number of

super-premium liquor brands fall into this category due to their high price, however, this group is most commonly associated with high-end vodkas. Lastly, the Independence category groups together brands which convey a sense of self-determination. Brands which utilize an independence badge are often targeting a male demographic. This category is where most American whiskey brands are located within the NeedScope.

While badges are often assigned using the Psychological framework of the NeedScope, it is important to note that they are not always defined by one of these six categories. Often times, a brand's badge can be found near the intersection of two categories.

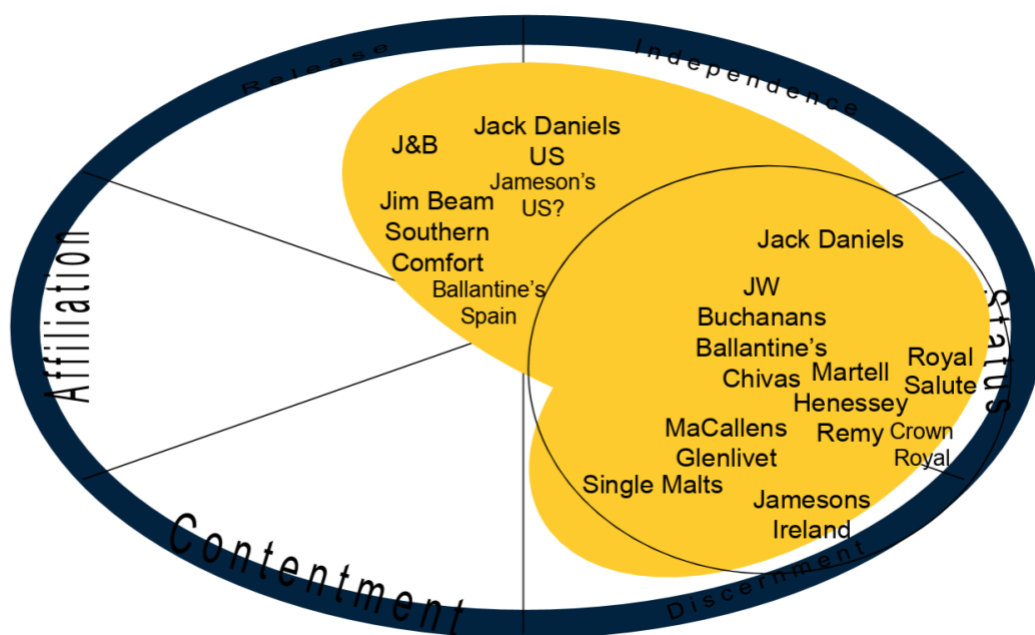


Figure 4.4

Figure 4.4 demonstrates how different badge brands are viewed relative to the psychological framework developed by Needscope. This helps brands to further differentiate themselves from

competitors by associating their products with more nuanced categories. This differentiation is clear to see through Jim Beam and Jack Daniels US market location within the scope. Beam aligns itself as a Release badge which floats towards the Independence category. On the other hand, Jack Daniels can be found closer to the Release/Independence boarder, with a focus within Independence. To this end, it is more likely to see Jack Daniels marketing campaigns are focused “deeply on heritage and tradition” (Owen, 2014). While Jim Beam’s most recent marketing campaign was entitled “Celebration,” looks to associate Jim Beam with the idea of enjoying oneself and “treating people right” (Beam, 2019). Contrasting these two marketing strategies helps us to see how Jim Beam focuses on selling their product through associating it with opportunities for entertaining yourself and your guests, while Jack Daniels focuses on the story of their heritage and how their founder was a self-made man focused on continuing a long-held family tradition.

4.4 Marketing Craft Spirits

Now that we understand how different liquor brands distinguish themselves from one another through the use of badge creation and cultivation, we can begin to examine how badge branding has played a role within the craft spirits sector.

Craft distilleries are an important starting place for emerging spirits markets. This title of “craft distillers” is assigned by the Craft Distillers Association to distilleries which produce only 750,000 gallons annually and are independently owned and operated. This factor helps to create the authentic aura around these brands due to the effort and skill attributed to making craft spirits. However, when it comes to marketing craft-whiskeys, it can become more difficult to

break into larger markets. This is because craft whiskeys fall somewhere in-between the Independence and Status categories of the NeedScope framework. This space is difficult to navigate, but can lead craft-brands to success is properly utilized.

Craft spirits are often more expensive than their mass-produced counterparts because of the costs associated with distilling these products on a smaller scale. Craft distilleries lack the infrastructure to create an economy of scale which makes it easier for large producers to price their products competitively. This increase in price, paired with the perceived effort in creating craft spirits, is what leads craft whiskeys to fall closer to the Status category rather than purely within the Independence zone. This craft whiskey area has seen growing success during the 2010's. "The last report, released in fall of 2018, showed a total of 1,835 active craft distilleries as of last August, up 15.5% from 2017. In the same time span, producers saw a 23.7% growth in retail cases sold, up to 7.2 million, and a 29.9% rise in sales, up to \$3.7 billion" (Emen, 2019). While this growth is promising for craft distillers, these brands are able to operate within this space due to the fact that they are "the little guy" within the American whiskey conversation. While their market share has grown over the last decade, "market share for craft spirits in 2017 grew to 3.2% in volume and 4.6% in value, up from 1.2% and 1.4%, respectively, in 2012" (Emen), small craft distilleries will likely remain below the 7% point in the future due to their cost.

Success within the craft distilling space for a number of states has been the driving force behind their whiskey markets. Obviously, these new markets have to start somewhere, and the rise of craft-distilling has led to the opportunity for new markets to emerge. However, within the long-term, these state markets cannot be sustained by relying on a handful of small craft distilleries.

For this reason, whiskey brands in emerging markets need marketing techniques which allow them to break out of the craft area of the NeedScope framework between Independence and Status. Without the opportunity to diversify their marketing techniques, small distilleries, and therefore small whiskey markets, will pigeonhole themselves to small market shares.

4.5 Texas Whiskey and Independence

With an understanding of tactics used by the spirits industry to differentiate their products through NeedScope marketing, and how craft distilleries market their products differently within that NeedScope framework, we can begin to explore the opportunities afforded to the Texas whiskey market through these marketing techniques.

By examining marketing strategies within the Texas whiskey market, it is clear to see how Texas brands are not shy about highlighting their origins within the Lone Star State. Just by looking at the bottles of the fifty plus Texas whiskey brands, it is easy to see similarities within their designs. Brands like Garrison Brothers, Balcones, Ranger Creek, Yellow Rose and Firestone & Roberston TX whiskey all use names or symbols which are deeply engrained into Texan mythos when planning their marketing techniques. Looking to other state's whiskey markets for context shows that it is unique for a brand outside of Kentucky or Tennessee to lean into the fact that their product is not from one of these whiskey powerhouses. The New York whiskey market, which has experienced a similar growth to the Texas market since 2008, does not utilize marketing techniques focused on highlighting product origins.

Many whiskey companies try to market their products in the same way that large Kentucky and Tennessee whiskey's do by focusing on the Independence and Status idea from the NeedScope. This leads to a majority of the market having old-timey bottle designs, a marketing campaign focused on the authentic taste or by touting that their product is different from the competition because of the hard-work and care which goes in to every cask. This ties back in to the authenticity which helped to drive the Bourbon Boom in the first place. However, the issue which most companies run in to is that they are new to the game. They cannot market their products by saying that they have been following the same recipe for over 150 years or by harkening back to stories of their founders' humble beginnings in the 1800's the way that Kentucky and Tennessee distillers can. They struggle to create a sense of authenticity for their product because many consumers hold to the notion that the best whiskey's are those from states and brands which have been producing for generations.

Why then do Texas whiskeys choose to be so forthright with their origins as opposed to other small markets within the United States? This choice leads back to the idea that the state of Texas has almost cultivated a brand of its own over the years. This brand is focused on the same emotions exhibited by American whiskey. The thought of the wild west, cowboys and Indians, self-made oilmen and most importantly, Independence. These are all parts of the Texan brand which help to grant Texas whiskey the sense of authenticity which other states do not have. A 2019 article in Texas Monthly entitled "The Great Texas Whiskey Boom" may have put it best: "Listen to Willie Nelson sing the Johnny Bush-penned "Whiskey River" or catch an old Western on TV with cowboys and gunslingers knocking back drinks in a saloon, and you might well conclude that nothing is more Texan than a glass of whiskey" (Benson, 2019).

This idea of using geographic stereotypes to help cultivate badge branding within American whiskey is not entirely unique to Texas however. Take for example, High West Whiskey from Park City, Utah. High West was a brand started in 2006. By the name alone, it is clear to see what this brand does to associate itself with this idea of independence. The association with the western United States conjures ideas of rough plainsmen who may have enjoyed a glass of whiskey after a hard day's work. These geographic themes, while not being associated with the birth place of American whiskey, still create a connection between these new products and the emotions associated with whiskey.

This Texan brand is likely the most important edge which the Texas whiskey market has to gain more traction at a national scale. As brands develop, their marketing strategies have to develop too. While a brand's badge may have started in the craft space between Independence and Status, as more brand recognition is created, these companies are forced to readjust where their badge falls. Should a company seek to expand their brand outside of the craft market, they will be forced to assess where their brand should fall throughout the NeedScope framework. This is what led to shifts by major whiskey brands throughout their product maturity. While brands like Jim Beam, Jack Daniels or Maker's Mark may have all started their marketing programs firmly in the center of the Independence category, as these brands continued to grow in popularity and mature into their product life-cycles, they begin to seek out a new niche within the NeedScope framework. By focusing their badge within the framework, they hope to also carve out a niche of consumers seeking to communicate their self-identity in a specific way. This is what leads these brands to drift further from the Independence category and closer to Release or Status.

The product life cycle, which sees these brands develop over time could aid Texas whiskeys in entering national markets outside of the craft sector. The alignment of Texas whiskey with the idea of Texas' unique brand of Independence means that Texas whiskey products can make the leap out of craft distilling and land more firmly within the Independence category than competing state-wide markets such as New York or California. There have even been examples of non-craft brands opening within Texas seeking to immediately capitalize on the Texas brand in order to create their badge. One such company is Nine Banded whiskey.

Nine Banded sources their whiskey from outside the state of Texas and then uses Texas spring water to dilute their product before distribution. This is only one of many Texan brands which does not distill their product directly but has instead chosen to set up within the state's boundaries to utilize this as a marketing tool. In the case of Nine Banded, starting outside of the craft market meant that they could immediately lean into the Texan brand in order to create their badge. Naming their company after the state mammal, the nine-banded armadillo, they sought a badge within the Independence area of the framework. From here they have begun to specialize their brand to land somewhere between Independence and Release. They are able to do this due to their low price relative to other Texan brands who distill their product in house. This serves as a prime example of the effects of creating a marketing image around the geographic stereotypes associated with Texas as this brand was able to grow within the confines of the Independence category before expanding into the space between Release and Independence. Brand growth such as this could be difficult for competing state markets due to the effects of new products being dismissed do to a lack of authenticity relative to brands from states like Kentucky.

Through examining the use of badge brand marketing techniques as a form of product differentiation, it is plausible to say that Texas holds an edge over competing states to enter into national and global whiskey markets on a larger scale

Chapter 5. Conclusion

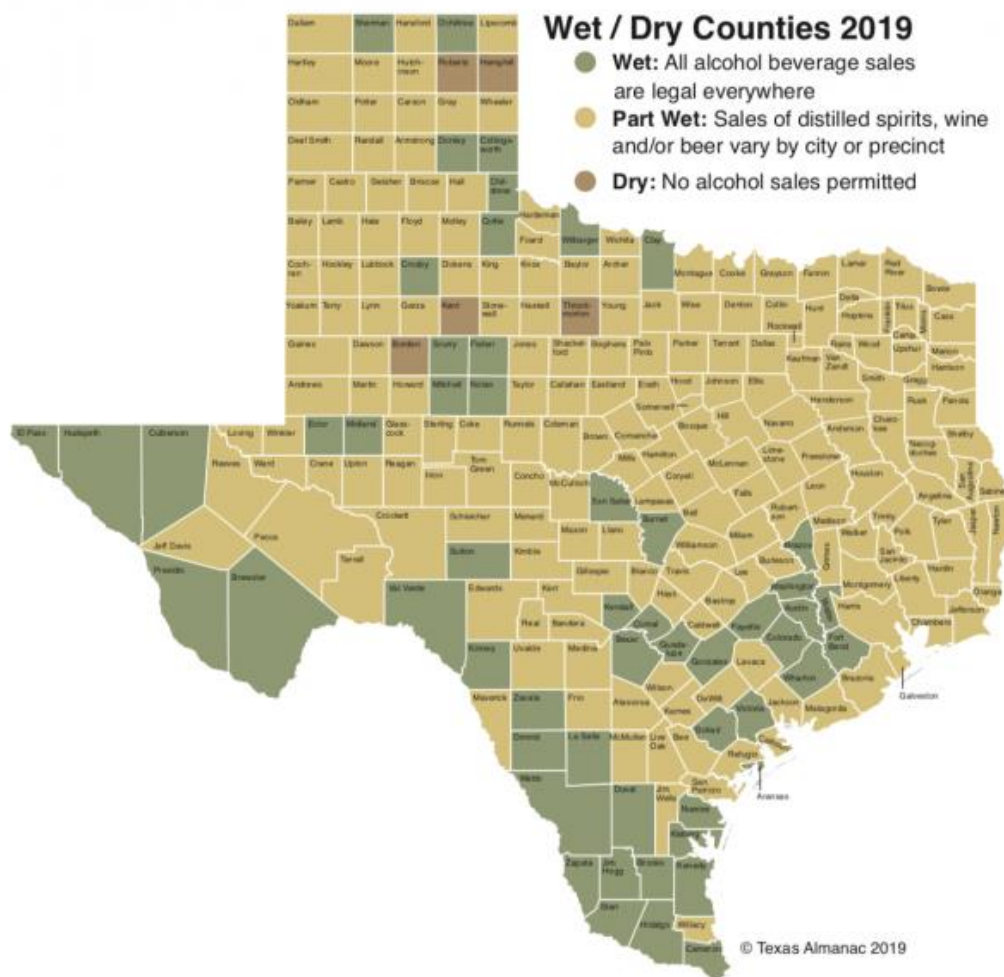
The Texas whiskey market remains in its infancy, however, fueled by the Bourbon Boom of the mid-2000s, is growing at a rapid rate. While Texas had only two craft distilleries in 2009, there are now over 16 craft distilleries operating in the state in addition to the fifteen whiskey companies who do not distill within Texas.

While this growth has been promising, there remain a number of challenges which impede Texas' ability to control a considerable amount of the American whiskey market share. The first of these hurdles are the unique environment which Texas distillers must contend with. While some distillers view this environment as an advantage in creating product quicker, it can lead to product which is more difficult to replicate. Second, the slow change of distribution laws in Texas where liquor is concerned makes it difficult for Texas whiskeys to expand as quickly as Texas beers and wines. Third, Texan distilleries ability to break out of the craft distilling space and in to new markets will be difficult due to the large amount of capital required to distill on a large scale.

With all this in mind, Texas whiskey has the distinct advantage of badge brand marketing tends which could aid future growth. These marketing strategies align well with the preconceived

identity of Texas and thus could lead to Texas brands transitioning from the craft distilling space to national expansion with more ease. Utilizing these trends could be the factor which leads Texas to become the next whiskey producing power-house in the United States.

Appendix A



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Biography

William Rush Furst was born in Austin, Texas on May 1, 1997. He attended Westlake High School before enrolling in the Plan II Honors program at the University of Texas at Austin in 2015. He also majored in Economics with a minor in Business Administration. While in college, he served as President of the Kappa Alpha Order Fraternity, Foreman of the Texas Cowboys and a Mentor in the Texas Leaders Initiative. He graduated in the Fall of 2019 and will be working for American Airlines as part of a revenue management team beginning in the spring of 2020.